

# **Impacts of the Korean Political System on its Economic Development: with a Focus on the Lee Myung-bak Government**

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To be presented at the Korea and the World Economy IX Conference  
June 25-26, 2010, University of Incheon, Korea

## **1. Introduction**

The political system, through which political decisions are made, has transformed remarkably in Korea from an authoritarian system during the 1960s and 1970s, to democratisation in the late 1980s, and further to the current liberal-democratic political system. Theories of economic development abound. Given the well-known ideas for economic development, a burning question arises as to why certain countries are able to take advantage of these ideas to achieve economic development, while others fail. In this regard, Olson (2000) argues convincingly that differences in per capita income across countries are due mainly to differences in the quality of institutions and economic policies. It is thus the political system that plays a critical role in economic performance, as economic policies and formal institutions are established through the political decision-making process. Nonetheless, little attention has been paid to the effects of the Korean political system on its economic development. There is a paucity of information and literature. As an attempt to fill the void in the literature, this paper examines and assesses the impacts of the Korean political system on its economic development with a focus on the Lee Myung-bak government.<sup>1</sup>

## **2. Effects of Political Systems on Economic Performance**

While a vast literature in political science and political economy is dedicated to the causality running from economic performance to political systems, there is however little literature on the effects of regime type on economic performance (Przeworski and Limongi, 1993). For most theoretical and empirical studies in this area, political systems are generally characterised simply as authoritarian or democratic. It is a moot point to suggest that authoritarian regimes may produce economic outcomes superior to those of democracies after the Cold War ended in the early 1990s. Yet a contrast between the authoritarian and democratic regimes in their impacts on economic performance is particularly relevant to the Korean case. One of the positive arguments that authoritarianism is beneficial to economic growth revolves around the assumption

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<sup>1</sup> Political systems for this study are referred to as 'regime types' as in the political science literature. The study of the effects of economic development on political systems is beyond of the scope of this paper.

that authoritarian regimes have a greater propensity to accumulate investment than democracies (Kohli et al., 1984; Cohen, 1985). As authoritarians are not concerned much with democratic elections, they can pursue growth policy decisively without much concern about policy ramifications on society and income distribution (Haggard, 1990: 261). This proposition depends on the nature and competence of the authoritarian regime and the time horizons authoritarians take. An authoritarian could be a benevolent dictator or a predatory one surrounded by corrupt political elites. The time horizon and moral probity of authoritarian elites cannot be judged *ex ante*, although authoritarianism has been seen to promote short-run growth in some developing countries.

Arguments in favour of democracy as beneficial to economic performance maintain that, while authoritarianism may promote short-run growth, democratic rule is more conducive to a sustained and equitable growth in the long run. For a country with a reasonably high level of development, in particular, further development may be achieved through creativity, innovation and business entrepreneurship. For such a country, political pluralism provides the underlying conditions for a competitive market economy that is required for innovation and new technology development (Harrison, 1985). To this Harrison (1985) adds that that authoritarianism, as compared to democracy, suppresses the creativity of individuals. Under democracy, lesser distributional conflicts will arise because democracy, by its very nature, must accommodate to some degree the claims of the poorer and more numerous sectors of society.

As the arguments for either authoritarianism or democracy are in essence based on critiques of the other system, it is difficult to choose a favourable one from the theoretical perspective. Hence, a number of empirical studies have been undertaken. The findings of empirical studies vary widely depending on the period and the regions of the studies, and are inconclusive.<sup>2</sup> A number of empirical studies find no relationship or only qualified relationship between regime types and economic performance (Burkhart and Lewis-Beck, 1994; Weede, 1996; Ersson and Lane, 1996; Przeworski et al., 2000; Gerring, et al., 2005).<sup>3</sup>

The above survey of the literature indicates that the study of the effects of political systems on economic performance is a highly contested and underdeveloped area of political economy scholarship. Most of the surveyed studies do not articulate the mechanism and process through which the political system affects the economy. For this paper, the influence of political systems on economic development is logical looped by the types of economic policies and institutions that are made through the structure of the political decision-making system. Hence, the first task of public policy

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<sup>2</sup> For those empirical studies, see Przeworski and Limongi (1993) and Sirowy and Inkeles (1990). It should be noted that most of the studies that argue for the beneficial effects of authoritarianism on economic growth were done before the end of the Cold War.

<sup>3</sup> Not many studies have been done in either Korean or English on the impact of the political system on economic development in Korea after democratisation at the end of the 1980s. Mo (2000) shows that differences in growth rates by political systems do not appear convincing. J.C. Lee (2001) examines the political system and its effects on economic liberalisation reforms – not the effects on the economy. J.W. Lee (2004) argues that as there is no theoretical basis nor empirical evidence favouring either authoritarianism or democracy for economic development, democracy together with the market system should be taken for the sake of more freedom.

is to establish proper formal (laws and regulations) institutions that will minimize transaction costs, secure property rights, and promote competition for efficient markets. Once such a institutional framework is established, a few successful factors for the political system can be identified. One of them is how well the political system reflects the nation's economic objectives. That is, success of economic policies depends on how comprehensively the government represents a nation's aggregate social interest or 'encompassing interests'. In this regard, McGuire and Olson (1996) point out that those countries with 'encompassing interest' group structures grow more rapidly than those with a high density of narrow special-interest organisations.<sup>4</sup>

With respect to an effective decision-making system, Cox and McCubbins (2001) argue that state decisiveness, referred to as the ability to effectively decide on policy issues, is a function of the political system. They further argue that the more 'veto points' – or contesting points within the political system, the greater its indecisiveness. Presidential systems typically have more veto points than parliamentary systems, often leading to legislative deadlock, and rendering policies under the former system less decisive. Cox and McCubbins (2001) appear to focus on 'veto powers' within the political system, while McGuire and Olson (1996) focus more on those narrow special-interest groups outside the system. This paper argues that the decisiveness of economic policy should take into account 'veto powers' both within and outside the political system. Another important criterion for policy success is its consistency over time. This will provide policy certainty and credibility based on which the private sector undertakes its economic activities. Policy consistency is equivalent to 'resoluteness' according to Cox and McCubbins (2001), which refers to the ability to stick to a policy decision. The time horizon the political system takes has a bearing on economic development. If the political system of a nation takes short time horizons, the economy will grow less rapidly than those with longer time horizons (Harrison 1985).

In summary, the criteria for a successful political system for economic development include appropriate formal institutions, and the implementation of national economic policy that is decisive, consistent, credible, and long-term oriented. Importantly, it must also represent the aggregate social interest or 'encompassing interest' of the society. Against these criteria, this paper examines the impact of the Korean political system on its economic development. To this end, a brief descriptive overview of the evolution of the Korean political system and its salient characteristics is provided with a focus on recent years.

### **3. Recent Evolution of the Korean Political Systems<sup>5</sup>**

Korea has, in principle, always had a democratic form of government based on the separation of powers and a system of checks and balances from the inception of the Republic in 1948. Syngman Rhee was elected as the first President of the Republic in 1948, and he stepped down in 1960 in response to strong opposition against his authoritarian and corrupt government by students and citizens. After one year of the

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<sup>4</sup> Moberg (2000) argues that the impressive growth of the Swedish economy during the 1950s and 1960s was attributable to its unique encompassing interest-group structure.

<sup>5</sup> Section III and IV draw on Chapter 3 (the Korean political system and its effects on the economy) of a forthcoming book (*The Korean Economy in Transition: an Institutional Perspective*) by the author, expected to be published in 2010 by Edward Elgar Publishing Ltd., UK.

Chang Myon government under a parliamentary system, General Park Chung Hee took power by military coup in 1961. He led the country until he was assassinated in 1979. Chun Doo Hwan was then elected president in 1980 for a seven-year term after a short transition period under martial law. In the presidential election held in 1987, Roh Tae Woo was elected for a five-year term. Both Chun and Roh were former generals.

The democratic advances made during the Roh Tae Woo administration set the stage for the election of Kim Young Sam in 1992 for a five-year term 1993-1998, ending the three decades of authoritarian rule under successive military dictatorships. The Kim Young Sam administration heralded a democratic transition and a new era of pluralistic democracy in Korean politics headed by the first civilian president in 32 years. The new political system comprised a larger number of important political stakeholders than before including not only the president, bureaucracy, politicians and chaebols who had been major political players in the past, but also trade unions, strong interest groups, the general public and local governments.

Long-time opposition leader Kim Dae-jung was elected president and inaugurated in February 1998, marking a watershed for Korean politics in that it was the first-ever peaceful transfer of power from the ruling conservative government to a liberal-democratic opposition party in Korean constitutional history. Roh Moo-hyun was subsequently elected from Kim Dae-jung's Millennium Democratic Party (MDP), and inaugurated in February 2003. In December 2007, Lee Myung-bak from the main opposition party, the conservative Grand National Party (GNP), was elected and was inaugurated in February 2008 in the second peaceful transfer of power from the ruling to an opposition party.

Korea's Constitution was first adopted in 1948 when the Republic was established, and has been amended nine times throughout the last five decades. The first eight amendments were made largely for the political expediency of the then presidents. The ninth amendment was approved in a 1987 referendum with bipartisan political support. This amendment provided for the direct election of the President for a single five-year term and for a system of local administrative autonomy for the first time in 30 years. This Constitution endures to the present and has ensured the last four peaceful transfers of political power. It provides for a liberal democratic political order and basic individual rights and freedoms, the separation of powers, and the rule of law. The Constitution assumes a free market economy by declaring that the State guarantees the right to property and other economic rights, such as the right to work, freedom of choice of occupation and the right to free association and collective bargaining.

Korea has a presidential system of government based on the separation of powers and a system of checks and balances. The Government consists of three branches: the executive, legislature and judiciary. Under the latest Constitution, the President is elected by a nationwide, equal, direct and secret ballot, and serves a single five-year term, with no additional terms being allowed as a safeguard against any individual holding power for a protracted period of time. Legislative power is vested in the National Assembly, a unicameral legislature. The term of office for members of the National Assembly is four years. In addition to the function of making laws, the National Assembly has the right to inspect all aspects of state affairs

on a regular basis as a check on executive power. The President cannot dissolve the National Assembly, but the National Assembly has the powers to recommend the impeachment of the President and removal of the Prime Minister and any officials in cases of violations of the Constitution or other laws in execution of official duties.

Korea's judiciary consists of three levels of courts: the Supreme Court, High Court and District Court, and also includes a specialised Family Court and Administrative Court. The President, with the consent of the National Assembly, appoints the Chief Justice of the Supreme Court for a single six-year term. The President upon the recommendation of the Chief Justice also appoints the other justices. The Constitutional Court was established in 1988 as an independent, specialised court dealing with issues such as the impeachment of politicians, the dissolution of a political party, the constitutionality of legislation, and for safeguarding human rights.

According to the Constitution, local governments deal with matters pertaining to the welfare of local residents and property issues, and also establish, within the limit of national laws, rules and regulations regarding local autonomy. A local government is required to have a council. Laws at the national level determine the organisation and powers of the council. The chief executives and members of local government councils are elected by direct vote for four-year terms.

#### **4. Salient Characteristics of Korean Politics**

Korea's latest Constitution follows closely the norms of advanced democratic countries, and the formal structure of government is little different from those of Western models. However, salient characteristics of Korean culture have shaped the development of politics in a unique way. The culture underlying the recent developments in Korean politics over the last five decades has been Confucianism. Although Korean society has changed significantly, Confucian values, such as an emphasis on personal relationships, hierarchical social structures and respect for authority, still remain strong.<sup>6</sup> These Confucian values have remained influential in shaping political development in Korea, maintaining some *sui generis* characteristics as follows.

*Paternalistic Political Leadership:* further to being hierarchical, Korea has also been a paternalistic society under Confucian influence. In such a society, people, including politicians are often judged according to Confucian values of good morals, humanistic attitudes and educational achievements. Political leaders are expected to be paternalistic with the quality of being morally strong, benevolent and knowledgeable, humble-minded, compassionate and virtuous. Such an emphasis on leadership has rendered Korean politics largely personality-based, rather than institutionally based. Nowhere is the importance of personality in Korean politics more obvious than in the political party system. The main political parties in Korea are largely recognised through their leaders. It is almost impossible to distinguish between the platforms and programs of the various political parties. In addition, political parties in Korea are subordinate to their leaders. Rather than acting as

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<sup>6</sup> For salient characteristics of Korean culture, see Kwon (2008: 64-85).

channels for political dialogue between society and political leaders, political parties are seen as followings for political leaders (Helgesen, 1998: 250).

The 'personality cult' approach in Korean politics has been reinforced by various political systems and culture. Candidates for the election of National Assembly members are nominated by the party leader – not by the local party members as in Western advanced countries. Therefore, any party member who is interested in running for national office cannot dare to challenge his/her party leader. This type of party political system is vulnerable to corruption. As people vote essentially for a person or personal background, legitimate considerations such as 'policies' are secondary. Under these circumstances, institutionalised party politics or disciplined political parties have never taken root, and a number of them have come and gone as attested by several new parties created in conjunction with the 2007 presidential election alone. The prospect of developing a limited number of encompassing parties in Korea looks dim.

*Power Concentration:* reflecting the Confucian influence, political power in Korea has been highly concentrated in the president who is also typically the leader of a political party. The president is surrounded by an interconnected elite group comprising of big businesses, bureaucrats, and politicians all bound together by regional affiliations and educational and friendship ties (Helgesen, 1998: 246; J.C. Lee, 2001: 197).

*Regionalism:* another influential and visible characteristic of politics in Korea is a regionalism that has had a destructive effect on political developments over the last five decades. In Korea's family and clan-orientated society, strong emphasis is also placed on one's place of origin; a descendent of a particular place will always belong to that place despite being born in another. Regionalism can thus be seen as a natural outcome of the Korean collective mentality. Successive governments in the recent past as well as authoritarian regimes have exacerbated the problem through utilising regionalism as a means of maintaining state power. Regionalism is embedded in Korean politics to the extent that people often make important political decisions based on their regional affiliations. If a presidential candidate comes from a particular provincial area, people from the region will support that candidate because he/she 'represents their interests'. Since a political party is identified by its leader and the leader is identified by the region where the leader was born and raised, the region of a party is identified by the region of the party leader.<sup>7</sup> Regionalism and the 'personality cult' mentality exert significant influence over politics and continue to impede the capacity for democracy to function efficiently.

*The Role of Non-government Organisations (NGOs):* Korean politics entered a new landscape in 2000 when the Integrated Election Laws changed, allowing non-governmental organisations (NGOs) to participate in election campaigns, although banning them from holding rallies for or against particular candidates (*Asiaweek*

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<sup>7</sup> This was clearly witnessed during the so-called three Kims era from the 1980s to the 1990s during which the four major political parties were: one led by President Kim Young Sam based in Gyeongsang Province, one by President Kim Dae-jung based in Jeolla Province, and one by former Prime Minister Kim Jong Pil based in Chungcheong Province. After the three Kims era was over, the power of personality-cult based politics has been incrementally weakening, while regionalism is still strong in Korean politics.

2000). There were nearly 70,000 NGOs registered with the central and local governments as of 2000. They are supported by society. In 2003, for example, 78.3 percent of the sample indicated a high degree of trust in NGOs, while the corresponding figure for political parties was only 14.9 percent, with the legislature rating 15.4 percent (Y.Y. Lee, 2009). The weak and unstable party system encourages the public to seek political efficacy outside the formal legislative process. There are also strong incentives for NGOs. A number of prominent NGO leaders were 'rewarded' with appointments of key government posts both under the Roh and Lee administrations (H.Y. Lee, 2004; *Chosun Ilbo*, 2009a). As Korea transits from an industrial society to an information society, political participation of NGOs will be expedited as networking between them and among their members will be further facilitated.<sup>8</sup>

*Prevalence of Large-Scale Social Movements:* mass civic actions played a crucial role in undermining Korea's authoritarian regimes prior to 1988 and in the transition to democracy. Since then, Korea has unambiguously been ranked as a full democracy by all international indicators. Nonetheless, there is the continuing prevalence of large-scale social movements that engage in widespread and frequent popular demonstrations and other protest activities, often illegal. There was an annual average of 372 protests per year over the period 1988-2007. The vast majority of protests are characterised as 'violent and disruptive', and mass public demonstrations such as the candlelight vigils from April to August in 2008 have the potential to virtually paralyse Korean governments (S.H. Kim, 2009).

A number of explanations can be made for the prevalence of violent and disruptive mass civic demonstrations in Korea. They include: a large number of NGOs networked through the Internet; the underdevelopment of the party system to represent social interests; a legacy of the democratic transition process from the military dictatorship prior to 1988; the large gap between actual government responsiveness and impractical and over-exaggerated policy promises under the single five-year term of the presidency; and the lack of social trust in politicians due to the prevalence of corruption scandals and uncivilised behaviours in public places. In addition, government responses to violent disruptions could be a critical reason for their prevalence. The large number of persistent protests over time implies that there prevails a perception in Korean society that the government takes heed of such protests, and that illegal activities are condoned. Indeed there have been numerous cases in which the government gave in to the demands of protesters. It appears that imposition of laws on illegal activities has not been adequately implemented; the incumbent minister in charge of such protests, with his/her typically short tenure, seeks to settle the issues quickly with no adequate punishment of illegal activities, nor with any serious concern with the long-term ramifications of the settlements. All this indicates that Korean democracy has yet to be consolidated for its stability.

## **5. Impacts of the Korean Political System on the Economy**

### **A. Economic Development under the Authoritarian Regimes, 1961-87**

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<sup>8</sup> During the authoritarian regimes from 1948 to the end of 1980s, the role of Korea's students was highly important in Korean politics. They were regarded as the group of 'social conscience' and stood up against social injustice, dictatorships, and corruption under the banner of democracy, justice, and unification of the nation. From the 1990s, students' role in Korean politics has ebbed remarkably.

The authoritarian regimes from the early 1960s with a strong central authority were quite successful in achieving a high annual average growth rate of 8.6 percent over the 1962-1987 period. They have been regarded as the model of the authoritarian capitalist developmental state (S.J. Han, 1995). Obviously the authoritarian regimes were quite successful in meeting those criteria that requires the political system to be conducive to economic development. The Park and Chun military regimes, which took a grip on political power by military means, maintained a vision and objectives consistent with the national interest of rapid economic development, as a way of legitimising their political power. A widely accepted objective of rapid economic growth prevailed in Korean society during the 1960s and 1970s, which was promoted by public campaigns and reinforced by strong nationalism. After the prolonged war-stricken poverty, all citizens assigned high priority to the economic growth of the nation. In this context, the predatory behaviour of state officials was not of serious concern in Korea. Similarly, special interest groups, either suppressed by the central authorities or non-existent, could not distract from the encompassing national interests in the growth objective.

The military regimes established and maintained a proper institutional framework. Even though they led a state-directed economy with extensive intervention, the regimes maintained a free market economy by securing private property rights and provided financial incentives for business and protection against foreign competition. The regimes also maintained competition within the domestic market by ensuring at least two companies operated in one industrial sector, unless it was run as a state-owned monopoly. In addition, the Park government established an autonomous and effective state apparatus, exemplified by the Economic Planning Board (EPB), which provided a high degree of autonomy to a bureaucracy staffed by talented technocrats. It also established economic research institutes under most government ministries. The government provided a proper educational infrastructure for human resource development and maintained a balance between the demand and supply of labour in the market, thereby maintaining real wage increments equal to the rises of productivity until the end of the 1980s (S.K. Kim, 2001). This high real wage growth served to dampen social discontent (Amsden, 1989: 10).

Economic policies implemented by the authoritarian regimes were decisive, consistent, credible, flexible and long-term oriented. From 1962 until the end of the 1980s, the government was able to implement consistently its consecutive five-year economic plans with specific targets. The underlying thrust of economic policies was rapid economic growth, although their directives evolved as the economy developed. With the constitutional clauses that permitted President Park to be elected for an unlimited number of times and President Chun to serve for a seven-year term, their time horizons were long, reflected by the consecutive five-year economic plans.

The Roh Tae Woo administration over the five-year period 1988-1993 pursued political democratisation, ending the authoritarianism of over four decades. All the merit of the authoritarian regimes with respect to economic development dissipated with them. The political transition imposed tremendous economic adjustment costs on the country. Labour disputes, which had remained suppressed under the authoritarian regimes for the sake of maximum economic growth and political stability, became rampant and violent, and wages rose far in excess of productivity. Real estate speculation flared up, and economic injustice was exacerbated. Throughout this



adjustment process, the Korean economy lost part of its economic growth vitality and international competitiveness.

*B. Economic Development under the Democratic Administrations, 1993-2008*

The Kim Young Sam government was inaugurated in 1993 as the first civilian regime in three decades and made a remarkable transition in the Korean political terrain. The new political system comprised a larger number of political stakeholders, fostered a more diverse and activist civil society, and made the system of political decision making more complex and difficult (S.H. Kim, 1997). For example, the Kim Young Sam government ended up abandoning the labour reform bill that had passed through the National Assembly due to militant labour activism. The new government embarked on a 'A Five-Year Plan for the New Economy' with a focus on globalisation. However, the new civilian democratic regime was relatively unstable because of the presence of strong interest groups and with the decline of central authority. The government lost decisiveness and consistency in its economic policy, as attested by its five-year economic plan being left unattended.

Although the Kim Young Sam government heralded a new era of political pluralism, democracy remained confined to a purely procedural process of providing a free and fair election and the constitutional guarantee of political participation (S.H. Kim, 1997; S.J. Han, 1995; Lee and Lee, 2008). The fundamental tenets of the economic policy of the Kim Young Sam government remained the same as the preceding authoritarian regimes, i.e., they were committed to a 'growth-first' strategy without undertaking meaningful economic redistribution (Y.S. Ha, 1997). His government failed to undertake serious institutional reforms other than introducing the real name deposit system and ended in financial crisis.

It was the Kim Dae-jung and Roh Moo-hyun governments that have differentiated their regimes from the conservative administrations of the early democratisation era. These administrations promoted the idea of participatory democracy, which meant the active participation of citizens in the policy-making process, the democratization of industrial relations, and the monitoring of state and business actors by a proactive civil society (Y.H. Lee, 2005). However, as Lee and Lee (2008) argue, the two regimes were still in the process of democratic consolidation which required not only procedural democracy, but also a democratic culture among the political leadership and civil society, whereby political leaders are equipped with the skills of political mediation, coordination and compromise, and civil society is required to accept the rule of law and partake in the political process. The consolidation process of Korean democracy has yet to be completed (Lee and Lee, 2008; J.C. Lee, 2001; J.W. Lee, 2004).

The slow process of democratic consolidation is attributable to a number of factors. The political leadership has not cast off the authoritarian style of leadership. This would be attributable to paternalistic leadership with concentrated political power, as examined above. Under pluralistic democracy, a large number of new political stakeholders have emerged. There is a lack of compromise among political stakeholders, thereby raising political confrontations and instability. As examined above, some stakeholders have occasionally applied tactics beyond the rule of law in asserting their political interests.

During the period of democratic consolidation, neither the Kim Dae-jung nor the Roh Moo-hyun government was regarded as successful in terms of economic policy. In its early stages, Kim Dae-jung's government managed quite successfully the financial crisis and undertook various economic reforms. This was attributable not only to the leader's decisiveness and resoluteness but also to the whole society being united behind him for a drastic shift in the economic policy paradigm to overcome the devastating crisis. President Kim's approach to economic reform was through coercion and intervention rather than relying on market principles. Once the exigency period was over, President Kim Dae-jung could not accomplish much due to his lack of coordination skills (Lee and Lee, 2008) and a high density of strong interest groups that applied militant and even illegal tactics for political gains. Furthermore, his presidential authority and credibility was weakened by corruption cases in which his son and close allies were involved.

The Roh Moo-hyun government over the period 2003-2008 was disreputable for its political instability which is in turn attributable to various factors such as his lack of democratic leadership and the immature democratic orientation of civil society. His 'participatory democracy' was aimed at social cohesion and voluntary cooperation with the state by fostering civil society organisations as a 'third sector'. Roh's stance raised expectations among various social groups and led to a prevalence of illegal strikes by unions and uncontrollable street demonstrations by interest groups or NGOs making 'an explosion of demands' throughout the five-year term (H.Y. Lee, 2004). Corruption scandals tainted his regime during the first year in which close associates were implicated. Roh's approval rating dipped with these developments and in less than a year's time his party (the MDP) was split into two factions supporting and opposing the President. Roh loyalists formed a new party, the Uri Party with only 44 of the 299 National Assembly seats (Fukuyama et al., 2005). With such minority support in the National Assembly, Roh was unable to pursue his legislative agenda.

President Roh and the Uri Party were dedicated to broad and highly sensitive reform agendas such as the decentralisation of administration as part of its regionally balanced development agenda; reconciliation and cooperation with North Korea; amelioration of the income gap between rich and poor; a reinterpretation of Korean history from the 1940s to the 1960s; and a stabilisation in the speculative hikes of real estate prices (Hahm and Kim, 2005). Public opinion on his reform agenda was polarised into conservative and progressive positions, and the conflicts between the two blocs escalated over time. These political conflicts culminated in March 2004 in an impeachment resolution by the National Assembly for the first time in Korean history for Roh's speech in support of his party in the then forthcoming National Assembly election. In May 2004, the Constitutional Court ruled that Roh had indeed violated the electoral law but the violation was not enough to warrant removal of a directly elected president (Hahm and Kim, 2005).<sup>9</sup> In the meantime, because of public dissatisfaction with the disruptive impeachment process, the 2004 election results delivered a resounding victory to Roh's Uri Party, which won a majority of seats in

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<sup>9</sup> The resolution of this constitutional crisis from the impeachment has demonstrated two important aspects of the Korean political system. First, the authority of the judiciary was enhanced in holding both the executive and legislature accountable. Second, it demonstrated the viability of Korea's relatively new democratic institutions (Fukuyama et al., 2005).

the National Assembly (Fukuyama et al., 2005). Despite this victory, public dissatisfaction with the President's policy and reforms soared rapidly, and Roh's party dramatically lost a series of by-elections to the GNP, and the party eventually disappeared by the time of the 2007 presidential election, demonstrating again the volatility of Korean democracy (Lie and Park 2006).

The Roh Moo-hyun government was not able to make significant accomplishments for economic development because of its lack of democratic leadership and the lack of encompassing interest, decisiveness, consistency and credibility in its attempted policies. Added to this were uncooperative rent-seeking interest groups employing non-democratic tactics for their claims. In terms of economic policy, the Roh administration posited a 'free and fair' market order with equitable distribution of income as the strategic economic objective (Y.H. Lee, 2005). When public opinion on his reform agendas was polarised into conservative and progressive positions, and the conflicts between the two blocs escalated, President Roh revealed his lack of democratic leadership and inability to compromise, as attested by his divisive rhetoric and promotion of the confrontation. All these developments together with the impeachment resolution exacerbated political instability. With such political instability, introduction of reliable economic policies and institutional reforms became untenable, thereby contributing to the nation's sluggish economic performance from 2003 to 2007.

## **6. Evaluation of Lee Myung-bak administration since 2008**

February 2008 began with the inauguration of President Lee Myung-bak from the conservative Grand National Party (GNP), marking the end of a 10-year period of progressive government. President Lee was elected on a platform of revitalising the economy through business-friendly policies, job creation and tax reductions. The GNP also won a clear victory in the April 2008 National Assembly election, giving the governing party the largest majority in the legislature since democratisation in 1987.

President Lee has so far failed to make a significant contribution not only to democratic consolidation but to social cohesion, both of which are closely related. This has been manifest in a number of ways. The first was his selection of Cabinet Ministers from his close associates based on his Alma Mater and church and from a wealthy area. During the National Assembly's approval process, a number of the candidates were accused of a variety of improprieties such as real estate speculation and tax evasion, and a few of them were subsequently withdrawn, forcing the President to apologise (Moon, 2009; Han, 2009). This incident alienated a large proportion of Korean citizens, who labelled Lee's Cabinet as being made up of only the wealthy and land-owning class of Korean society (Kihl, 2009).

Then in August 2008, President Lee angered Korea's Buddhist community for alleged discrimination. There were claims that because of Lee's strong Christian faith, senior public servants in government had been evangelising for Christianity and disparaging Buddhism (Moon, 2009: 124).<sup>10</sup> In this regard, Kang (2009), an

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<sup>10</sup> A survey found that almost 40 percent of Koreans felt that religious conflicts had intensified since the start of the Lee administration (*Korea Times*, 2010).

influential columnist with the *Chosun Ilbo*, and Kihl (2009) argue that President Lee should be the leader of the entire nation, rather than special interests. After being criticised as a hardline conservative with his government made up of rich cronies (*Chosun Ilbo*, 2009b; *JoongAng Daily*, 2009a), President Lee set out in June 2009 to remedy his fragile base of political support by ‘strengthening the ranks of centrists’ in his administration. As part of this strategy, the President nominated in September 2009 Chung Un-chan, a former Seoul National University President with ties to the opposition Democratic Party as new Prime Minister along with a number of other new ministers.

President Lee is criticised as lacking in national leadership skills of political coordination and compromise. Perhaps because of his long career as a chief executive officer of Hyundai Construction and as Mayor of Seoul City for four years, reinforced by Korea’s political culture of paternalistic leadership, he has not developed such political skills. While the often unruly and irresponsible actions of the National Assembly are not strictly the fault of President Lee, and owe much to Korea’s immature democratic political culture, his top-down, dictatorial style and lack of political skills in compromise and negotiation, have made the situation much worse. This style of administration reflected in his nickname of the ‘bulldozer’ and corporate and mayoral reputation for ramming through changes is not practical in Korea’s national democratic system with its many veto points (Kihl, 2009). Therefore, the Lee administration has received little support or cooperation from the legislative branch in the face of a sustained deadlock and occasional violence in the National Assembly. In this regard, D.J. Kim (2009), a renowned columnist from *Chosun Ilbo*, which is well-known as a supporter of the conservative GNP, argues that President Lee lacks the political skills of compromising with National Assembly members and the opposing factions within his own party. Similarly, Kihl (2009) argues that President Lee acts more like ‘a business executive than as a politician’. The remainder of this section assesses the Lee Myung-bak administration as in February 2010 from the evaluation criteria outlined above: encompassing interests, decisiveness, consistency, credibility, flexibility and long-term orientation.

*Encompassing interests:* major projects President Lee has proposed do not appear to reflect the aggregate social interest. His grand cross-Korea canal project proposed as one of his key election pledges was abandoned because of strong objections from the general public and from a faction of his own party. He then proposed the four-river restoration project, with an estimated cost of 22.2 trillion won, amounting to 2.0 percent of GDP, which has become another controversial and divisive proposal. About 58 percent of citizens do not believe the government’s announcement of the no-relationship between the cross-Korea canal and the four-river projects (*Hankyoreh*, 2010a), and the number of citizens supporting the four-river project remains under 30 percent (*Hankyoreh*, 2010b). D.J.Kim (2010) adds that 56.8 percent of Korean citizens are opposed to the projects and only 37.3 percent of them support them. The main reason for such low support is the public’s suspicion of the project as a prelude to the cross-Korea canal and the seemingly reckless pursuit of the

project without adequate prior examination in order to complete it within President Lee's five-year term.<sup>11</sup>

Another controversial and divisive project is the Sejong City project. The original plan was created through a bipartisan agreement in 2005 to establish a new administrative capital and to contribute to the nation's balanced development by relocating a number of ministries to the City. President Lee, who supported the original plan during the presidential campaign, proposed a modification of the original plan thereby developing the City for new industries without relocating any ministry of the government. This may hollow out industries from other regions creating further controversy. Instead of attempting to elicit broad-based public approval, President Lee has said 'this is not something for public approval or disapproval', implying 'just follow me' as these two projects are good for the nation's future (*Hankyoreh*, 2010b).<sup>12</sup> This runs counter to the democratic principle.

*Decisiveness*: the Lee government appears to fare quite poorly with this criterion. Because of the presidential system, the Lee government encounters strong internal and external veto points, leading to legislative deadlock. Despite the governing party holding a large majority in the legislature, it is factioned with a strong schism in terms of personality and policy. As examined earlier, Korea has a very strong and activist civil society and trade union movements. Han (2009) points out that the candle light vigils, organised by civil society groups, paralysed the Lee government for a few months. Hence, it is apprehensive about passing potentially unpopular laws without support from the opposing faction of the government party as well as opposition parties, as NGOs and labour unions could easily provoke another wave of destabilising protests with President Lee's low approval rate (Oliver 2009).

There is also a parliamentary convention that prior agreement be reached on any legislation before a formal vote, thereby leading to interminable delays (*JoongAng Daily*, 2009b). Constitutionally, even if the President does not have a majority in the National Assembly, the President still holds a unilateral prerogative via decree powers to enforce his preferred policies (Tsai, 2009). Given his direct and uncompromising style, it seems unlikely that Lee would not use the presidential decree powers if National Assembly opposition is the main concern or obstruction. However, whether he would use his presidential decree or not depends on his public approval rate, and the current rate appears to be too low to warrant his use of the decrees.

*Consistency*: due to a variety of political problems at the beginning of the Lee government as examined above, the third criterion of *consistency* has also been lacking in the administration's policies, activities and personnel. The US beef import crisis is perhaps the exemplary case. On April 15, 2008 just before his first official visit to the US, President Lee, without public consultation, announced that the government was rescinding Korea's ban on beef imports from the United States that had been imposed after a case of mad cow disease in 2003. This prompted massive

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<sup>11</sup> As D.J.Kim (2010) suggests, the best approach under the current circumstances would be to implement the four-river projects in a few steps, taking a project for one of the four rivers at first as an experiment. Based on the results, the government would then decide on the future of the remaining four-river projects.

<sup>12</sup> An influential priest Jung (2009) raises a similar opinion in his open letter to Prime Minister Chung Un-chan, <http://eulpaso.egloos.com/2494012>

public demonstrations across the country and developed into an anti-government movement with anti-American overtones (Hundt, 2008; Moon, 2009; Kirk, 2008). Eventually, after months of political paralysis, physical repression and public apologies, the government backed down and settled on imposing more stringent regulations on U.S. beef imports, and the entire Cabinet and various presidential aides offered their resignations (Moon, 2009).

In addition to abandonment of the cross-Korea canal proposal, as mentioned above, the exchange rate policy of the Lee administration lacked consistency. The government initially pursued a weak *won* policy to bolster exports as part of its growth-oriented strategy, which quickly backfired with sharp international price rises in oil and other commodities. In response, the government attempted to appreciate the currency, but then failed to do so in October 2008 during a steep devaluation of the *won* in the wake of the 2008 global financial crisis (GFC). In the face of the GFC, President Lee was also accused of lacking policy coordination among ministries and agencies, aggravating policy inconsistency (Moon, 2009).<sup>13</sup>

*Credibility:* the constant problems and scandals early in his administration, apparently the product of poor democratic leadership skills and lack of sensitivity to public concerns have contributed to the damage to President Lee's credibility. Most of Lee's election promises appear to have been irresponsible sloganeering, with little chance of achievement within his presidential term. Lee was elected on the so-called '747' slogan: seven percent annual GDP growth rate over the next 10 years, US\$40,000 per capita income, and Korea becoming the 7<sup>th</sup> largest economy in the world within 10 years. Additionally, President Lee advocated further deregulation, privatisation and greater tax incentives for R&D. However, the actual annual economic growth rates have fell far behind his target rate of seven percent, and no significant initiatives have been undertaken for his growth-oriented strategy either in institutional changes or in economic policy measures other than a weak *won* policy, as mentioned above (Hundt, 2008). In addition, abandonment of the across-Korea canal project, the debacle with the US beef import issue, the broken promise of developing the Sejong City by law, all of which forced him to make his unprecedented series of public apologies, have damaged his credibility as well as policy consistency (Kihl, 2009; *Chosun Ilbo*, 2009c). This is perhaps best indicated by Lee's woeful standing in public opinion polling between mid-2008 and late-2009. Lee's approval rating, which peaked at 51.1 percent in March 2008, had plummeted to 17.1 percent by June of that year (Han, 2009). His approval rate has improved to 44.0 percent in February 2010 after he set out to strengthen his political support base by promoting his new-found 'centrist pragmatism' in June 2009 when his approval rate was 25.3 percent (*Korea Times*, 2010).

*Long-term orientation:* it has been argued above that Korea's single, five-year presidential term is bound to lead to short-sighted policies, and this has been observed many times in Korea (*JoongAng Daily*, 2009c). It appears that despite any intentions to the contrary that might have existed, the government's mistakes have resulted in a

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<sup>13</sup> Han (2009) also notes that within 116 days of Lee's election, all the Presidential secretaries originally appointed had been forced to resign, indicating the inconsistency in personnel. Moon (2009) argues that mismanagement, inconsistency and confusing policy signals has resulted in a lack of market confidence in the economic management skills of the administration.

series of urgent rolling crises, which can only detract from responsible long-term policy. Jang (2008) argues that the above lack of credibility is due to 'the short-sightedness and rash comportment of a president who cannot see even six months in the future'. Han (2009) also argues that all of Lee's initial policy proposals such as making changes to English education, privatisation of utilities including the water company, the grand canal project, deregulating public schools, and seeking to control broadcasters, were 'short-sighted' and all attracted significant opposition. The four-river project is also a short-sighted project which the President attempts to complete within his term. He is quoted as saying that 'the nation's future depends on science and technology and education' (*Korea Herald*, 2010). Given the nation's strong drive toward a knowledge-based economy, such a huge civil engineering project, which has low forward and backward economic linkage effects, cannot be an appropriate long-term project.

In mid-2009, with his weakened presidential authority together with a very low public approval rating, and with the lack of support from the National Assembly, it appeared unlikely that the Lee government would be able to undertake significant institutional reforms and economic measures that meet the policy success criteria. However, by the second half of 2009, the President had recognised that the situation was untenable, and has assumed the political middle ground with a more pragmatic and centrist policy to strengthen his political support base. Since then, opinion polls have improved substantially. It remains to be seen whether Lee's new-found centrist pragmatism can carry him more successfully through the rest of the presidential term.

## **7. Conclusion**

Economic development is a complex phenomenon with a variety of contributing factors. Recognising the complementarity of the multiple factors for economic development, this paper has examined the impacts of the political system on economic development in Korea from the authoritarian military regimes of the 1960s and 1970s to the present liberal-democratic political system. To this end, a set of criteria against which to assess the impact of the political system on economic performance have been developed through a literature review. They include: the establishment of proper institutions to minimise transaction costs, secure property rights and promote competition; and the implementation of national economic policy with encompassing interests, decisiveness, consistency, credibility, and a long-term orientation.

The Korean political system has made remarkable progress over a short period of time and its democracy has matured substantially. It made a historic transition from authoritarianism to democracy with a corresponding constitutional reform in 1987. Since then, peaceful power transfers have occurred twice from the ruling party to an opposition party, and Korea has experienced even an impeachment trial of the president. The contents of Korea's existing Constitution follow closely the norms in Western democratic countries, and the formal structure of government is little different from those of politically advanced models. However, the Korean political system maintains some *sui generis* characteristics resulting from its idiosyncratic culture and political development process.

It is generally considered that the authoritarian regimes in Korea were quite successful in terms of economic development. The regimes were committed to economic development without serious predatory activities. They established proper institutions for secured property rights and market competition, and established policy-making organisations staffed with efficient officials. Economic policies met the success criteria of decisiveness, consistency, credibility and long-term orientation. The military regimes also met the criterion of encompassing interests of the general public, excluding special-interest organisations, including unions which remained repressed. However, the merits those authoritarian regimes had with respect to economic development all dissipated with the political transition which imposed tremendous economic adjustment costs.

The Korean political system under democracy has become much more complex and difficult with a large number of political stakeholders and a diverse and active civil society. Korean democracy has been in the process of consolidation. For a completion of democratic consolidation, political leaders need to be equipped with the democratic leadership skills of political compromise, and civil society is required to accept the rule of law and partake responsibly in the political process. The Kim Young Sam government was not able to generate social consensus on its national economic policy and lost decisiveness, consistency and credibility in its policies. His administration also failed to undertake serious institutional reforms thereby resulting in the 1997 financial crisis.

Neither the Kim Dae-jung nor Roh Moo-hyun government succeeded in the consolidation of democracy due to a lack of leadership and an immature civil society. President Kim Dae-jung was quite successful at the beginning of his term in managing the financial crisis and implementing various institutional reforms, largely because the whole society was united behind him to overcome the devastating crisis. Beyond this, though, he could not accomplish much due to his lack of coordination skills, and his presidential authority was weakened by corruption cases, undermining his policy credibility. Because of the same reasons as for the Kim Dae-jung government, the Roh Moo-hyun administration was not able to make significant accomplishments in economic development. Roh started with a broad agenda of political reforms and economic policies. However, public opinion on his policy agenda soon became polarised and civil and political conflicts escalated. Under such social fragmentation and political instability, the government failed to implement significant institutional reforms and new policies that meet the success policy criteria, thereby contributing to the sluggish economic performance over the 2003-2007 period.

While it is far too early to make a full assessment of the Lee administration, it has started quite poorly over its first two years. President Lee has certainly failed to contribute to democratic consolidation and social cohesion, and has exposed his lack of leadership skills of political coordination and compromise. This has resulted in a number of legislative deadlocks over various issues. He has abandoned a series of election promises. All this has damaged his policy decisiveness, consistency and credibility. He has also introduced some controversial and divisive projects that lack aggregate social interest and long-term orientation.

The underlying weakness of the Korean political systems under the 1987 Constitution has been demonstrated by recent democratic governments. In addition to



deficient democratic consolidation and a civic culture of disruptive protests, one of the major problems with the Korean political system under the existing Constitution is the system's inherent instability resulting from the instability and factionalism of its political parties and the single five-year term of the presidency. Korean political parties, built around the leaders' personality and regionalism, are poorly institutionalised. They are unable to develop a stable party politics and are vulnerable to corruption. Under the single five-year term, presidential candidates are likely to make impractical policy promises, and once elected, the president has strong incentives to pursue short-run economic programs. Once disenchanted with the president, electorates are likely to elect opposition party members to the National Assembly and resort to mass civic protests, raising the prospect of minority government and political deadlock. Under such political instability, the government is less likely to meet the success policy criteria with institutional reforms and economic policy measures. Society becomes aware of the lack of decisiveness, consistency, credibility and long-term orientation of development policy, which renders the task of reaching policy consensus more difficult.

Clearly, the political system is an important variable for economic development and is not a matter of *ceteris paribus*. Even if all else remains the same, the prospects for the Korean economy will be tainted because of the low level of democratic consolidation, the unstable party system and inappropriate civic culture. All this is highly attributable to Korean culture that changes only at a glacial pace. In order to improve its economic prospects and to attain the nation's long-cherished goal of the status of an advanced country, Korea needs to accelerate the democratic consolidation process and improve its party political system.

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